

State of Illinois
Illinois Commerce Commission

Illinois Commerce Commission)	
On its own motion)	
)	
Proceeding to monitor the ongoing)	Docket No. 03-0056
Development of the marketplace for)	
Commonwealth Edison customers)	

I. Staff of the Illinois Commerce Commission's Initial Market Monitoring Report, December 2003

As part of an ongoing market monitoring process, the Interim Order in this proceeding ("Interim Order") made provisions for Staff to report on the status of the developing market within the context of this ongoing proceeding. In particular, the Interim Order requested an Initial Report on the state of the market for 6L customers 3 MW and larger to the Commission by December 31, 2003, using the information that is available at the time. All information provided in this report refers to Customers 3 MW and larger within the ComEd service territory. Staff hereby presents this initial market monitoring report.

Overall, the monitoring effort between January 2002 and September 2003 has shown that the portion of customers on Retail Choice Delivery Service ("RCDS") of some kind or on bundled service has changed little. For the most part, customer movement has been confined to shifts away from the ComEd supplied Power Purchase Option ("PPO") to Retail Electric Supplier ("RES") service. As part of this movement from ComEd supplied PPO service to RES service, the market did see an increase in the market share of unaffiliated retail suppliers among customers (3 MW and larger). However, the lack of significant movement from bundled service to RCDS service options between 2002 and 2003 maintains the concern that RCDS options may not be economically viable alternatives to some portions of 3 MW and larger customer group, particularly those that have taken service via Rider 26 and 27.

II. Switching Data Among 6L customers 3 MW and Larger

Pursuant to the conditions of the Interim Order, ComEd and the RES operating in ComEd's service territory are providing data regarding the

customers and the services they are taking on a monthly basis. For the specifics of the information being officially provided, see the Interim Order. Staff has been provided monthly data on retail services being used by customers from January 2002 through September 2003, broken out by customer historical 6L rider and by customers on Special Contracts.

A. Developments Affecting Customer Decisions

The April through July period in the ComEd service territory is the “notification period” during which customers can make known their intention to switch retail services. Between the 2002 and the 2003 Notification Periods, several changes were made to the structure of the retail market place for Customers 3 MW and larger in the ComEd service territory. The final order in Docket 02-0656 (March 28, 2003) introduced a multi-year Customer Transition Charge (“CTC”) for Customers opting for RES service and several modifications to the Market Value Index (“MVI”) calculations. As of the Commission action in the 02-0479 Interim Order (November 14, 2002), those customers not taking bundled service as of July 2003 (the end of the 2003 Notification Period) no longer have the option to return to bundled service. Each of these changes will, starting with the 2003 Notification Period, impact customer choice.

The changes coming from the final order in Docket 02-0656 should generally promote RES service as a customer choice, all else held equal. The multi-year CTC is designed to reduce the price risk of customers taking long-term service with RES relative to what was available with ComEd’s original year-to-year CTC calculation. The modifications to the MVI calculations were also designed to make RES service more attractive than other RCDS options. In particular, both changes are expected to reduce the number of customers taking PPO service. In addition, customers opting for the multi-year CTC forfeit the PPO option for the duration of their CTC arrangement.

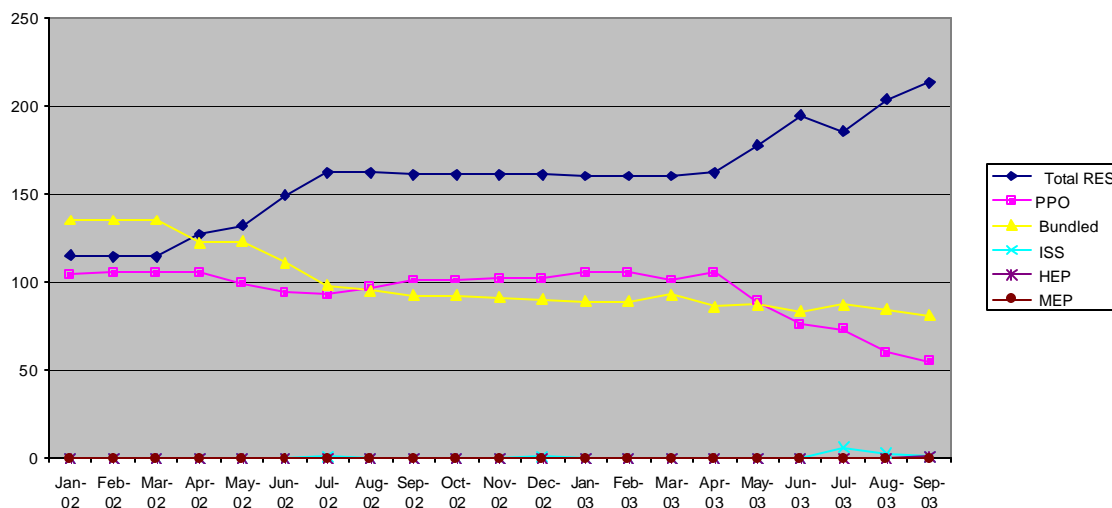
On the other hand, the changes from 02-0479, which made leaving bundled service an irreversible decision as of the end of the 2003 notification period, is expected to have a chilling effect on the growth of RCDS service, all else held equal. Bundled service has been, historically, a more stable produce than what has been available on RCDS due to the annual variability of the MVI and CTC. The option to take bundled service acted as a last ditch safe harbor during this period of uncertainty. The loss of this option would have been expected to encourage the more risk adverse RCDS customers to return to bundled service before the end of the 2003 Notification Period. Risk adverse bundled customers, particularly those with only marginal benefits with RCDS, would be expected to be less likely to change to RCDS. As the numbers show, however, the modifications made in Docket 02-0656 may have mitigated these effects.

B. Overall Trend in Switching Data

The overall trend in the data from January 2002 through September 2003 indicates an increase in the number of customers taking service from RES and a decrease in the number of customers on the PPO. While RES appear to have drawn customers from both PPO and bundled service in 2002, Diagram 1 below indicates that almost all of the 2003 increase in RES numbers comes from customers switching from PPO service in 2003, not from a significant net loss of bundled service customers.

As Diagram 1 shows, most of the customer movement among retail service types occurs during the April through July timeframe in each year. The April through July time frame corresponds with ComEd's "Notification Period" (in 2003 it was specifically April 28th through July 14th) for ComEd's multi-year and single year CTC offering. April 28th is the date that ComEd's CTC were made available to customers. The CTC is an important component of the costs faced by customers on RCDS, and as of April 28th customers were in a position to judge whether or not an offer from a RES is more attractive than the PPO or other options.

Diagram 1: All Customers 3 MW and Larger by Retail Supply Type



For the year to date, from January 2003 to September 2003, the total number of customers in this group dropped from 354 to 351¹, bundled customers dropped from 89 to 81 customers (counting customers with expiring Special Contracts), RES customers rose from 160 to 213 customers, and PPO dropped

¹ Two customers were lost from the 3 MW and larger Basic 6L classification and one customers was lost from the 3 MW and larger Rate 6L, Rider 25 classification. Whether these customers went out of business, consolidated accounts, or fell below the 3 MW threshold is unknown at this time.

from 105 to 55 customers. As of September 2003, there was one customer on Interim Supply service (“ISS”), one customer on Hourly Energy Price (“HEP”), and no customers were on Monthly Energy Price (“MEP”). Within the bundled service classification, Special Contract customers dropped from 18 to 14. Going forward, it is important to note that those customers not taking bundled service as of July 2003 no longer have the option to return to bundled service due to the Commission action in the 02-0479 Interim Order (November 14, 2002), and RCDS customers had the option of using a multi-year CTC which prohibits switching to PPO service for the duration.

As of the end of the 2003 Nomination Period, leaving bundled service for RCDS service is now an irreversible decision for customers until ComEd has a chance to change its rates at the end of the transition period, at which time ComEd will have the ability to eliminate bundled service to all customers (3 MW and larger). Table 1 below shows the number of customers, by Rider, that are now ineligible for bundled service. Table 2 shows the percentage of customers, by Rider, that are ineligible for bundled service. The fact that these RCDS customers did not exercise the option to return to bundled service before of the end of the 2003 Nomination Period, and that bundled service numbers actually eroded slightly, shows a significant confidence among current RCDS customers in the future of the retail market, due, perhaps in part, to a reduction in customer price uncertainty via the introduction of the option to take a multi-year CTC if taking service from a RES.

Table 1: Customers Ineligible to return to 6L									
Distinct Bundled Service Category of 3MW & Larger Customer	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03
Rate 6L	0	0	0	0	0	135	155	155	155
Rate 6L, Rider 25	0	0	0	0	0	80	88	88	88
Rate 6L, Rider 26	0	0	0	0	0	1	2	2	2
Rate 6L, Rider 27	0	0	0	0	0	5	5	5	5
Special Contract or Service Agreement	0	0	0	0	0	4	4	4	4
Total	0	0	0	0	0	225	254	254	254

Table 2: Percentage of Total Customers, by Rider, that are Ineligible to Return to Bundled Service									
3 MW and Larger Customers	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03
Rate 6L	0	0	0	0	0	0.69	0.79	0.80	0.79
Rate 6L, Rider 25	0	0	0	0	0	0.73	0.80	0.80	0.80
Rate 6L, Rider 26	0	0	0	0	0	0.11	0.22	0.22	0.22
Rate 6L, Rider 27	0	0	0	0	0	0.26	0.26	0.26	0.26
Special Contract or Service Agreement	0	0	0	0	0	0.22	0.22	0.22	0.22
Overall Percentage	0	0	0	0	0	0.64	0.72	0.73	0.72

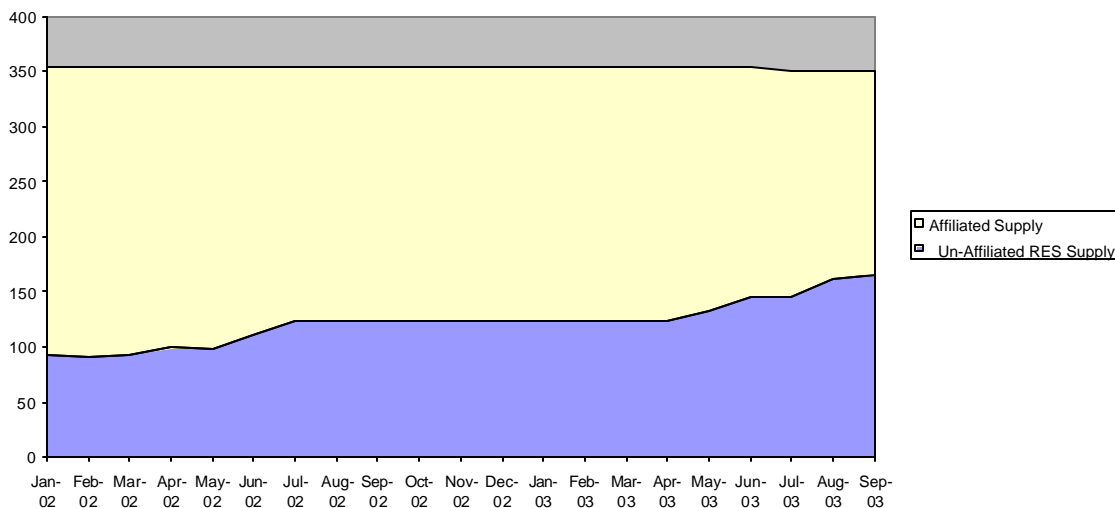
Since bundled service is no longer an option for customers who have left, or will leave bundled service, net increases in the number of *bundled* customers can no longer be used to measure the declining health of the retail market for service alternatives. While the continued eroding of the number of bundled customers would indicate the delivery services market was improving its appeal to bundled service customers. In contrast, times of stagnation in bundled rate desertions, concurrent with a decrease in the proportion of customers on unaffiliated supply alternatives, and a net reduction in customers in the affected

class, would provide initial indications that the retail delivery services market might be failing to provide viable alternatives to ComEd or ComEd affiliated service.

As indicated above, one important consideration in the ongoing monitoring effort will be the continued and expanding role of unaffiliated retail sources in the ComEd marketplace. Competitive markets require a supply of active, unaffiliated competitors. Diagram 2, below, shows that the use of energy supply not directly associated with ComEd increased from January 2002 to September 2003 among customers (3 MW and larger). Diagram 2 indicates that among RCDS customers 3 MW and larger, unaffiliated RES service was increasing at the expense of other services affiliated with ComEd (bundled, Special Contracts, PPO, ISS, HEP, and MEP).

While the number of customers on RES service supplied by ComEd's affiliates did increase slightly during this period, the ComEd affiliate's share of RES customers decreased. All else held equal, these numbers show signs of an improving market situation for most customers (3 MW and larger), particularly considering the loss of the option to return to bundled service by the end of the 2003 Notification Period.

Diagram 2: Overall Break down of 3 MW and larger customers by Supply Affiliation



C. Rider Specific Switching Data

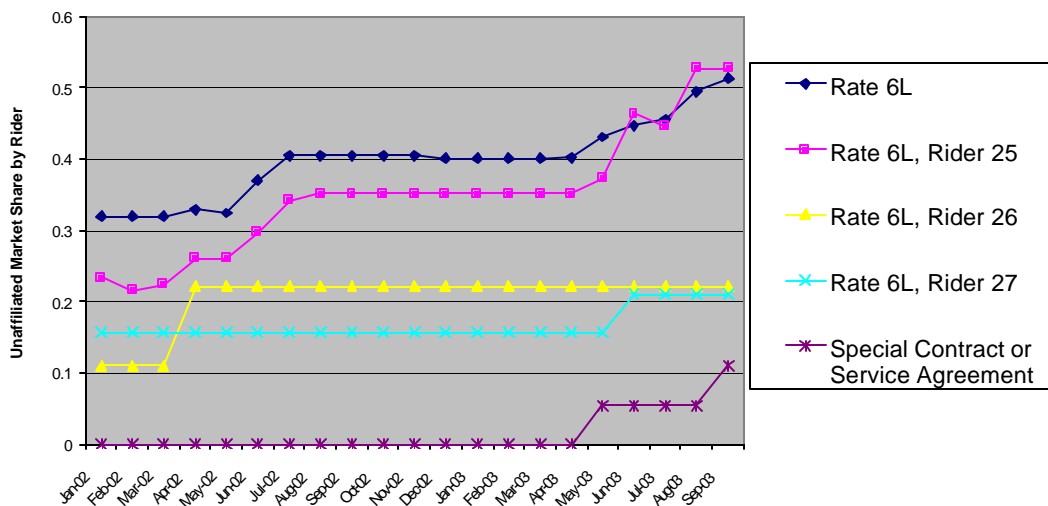
During the original proceeding (Docket 02-0749), Staff raised the issue that some customers may have specific characteristics that may limit the availability or value of the alternatives provided by RES relative to that provided by ComEd's bundled service. Because of this, the breakout of the data by

historical rider was collected. Classification of customers by Historic Riders provides an indication of specific, readily identifiable characteristics of customers within the 6L group as a whole.

3 MW and larger customers on 6L service have historically made use of one of three riders: Rider 25, Rider 26, and Rider 27. Rider 25 is applicable to customers with space heating. Rider 26 is applicable to customers with interruptible loads. Rider 27 is applicable to customers with self-generation capability that is used to displace load. customers on Special Contracts are indicated separately as well.²

While the previous section indicated a fairly significant increase in overall unaffiliated RES service among customers in the ComEd market, Diagram 3 below indicates that the success of unaffiliated RES penetration of this market is uneven when examined on the basis of historic Rider. In particular, the performance indicated in the section above is mirrored only among customers on Basic 6L service (no rider) and Rider 25 (space heat) customers. Rider 26 (Interruptible) and Rider 27 (Self-Generation) customers, on the other hand, have seen little in the way of the growth of viable alternatives from unaffiliated RES suppliers. Table 3 shows the percentages of customers on unaffiliated RES service as of January 2002 and as of September 2003.³ The switching statistics

Diagram 3: Unaffiliated Market Share by Historic Rider



of each Rider classification of customer is examined separately below.

² Where Special Contract customers are not specifically tracked they are included in the bundled service numbers.

³ Staff has not yet received monthly data beyond September 2003.

Table 3: Market Share of Unaffiliated RES as of Given Date		
Distinct Bundled Service Category of 3MW & Larger Customers	January-02	September-03
Rate 6L	0.32	0.51
Rate 6L, Rider 25	0.23	0.53
Rate 6L, Rider 26	0.11	0.22
Rate 6L, Rider 27	0.16	0.21
Special Contract or Service Agreement	0.00	0.11
Average Share of Customers 3 MW and Larger	0.26	0.47

1. Basic 6L service customers

As noted above, among Basic 6L service customers, the total number of customers on RES service increased during the observation period. Diagram 4 shows that the increase in the number of customers on RES service is closely matched by the decrease in the number of customers taking PPO service in the same time period. The net number of customers on bundled service, on the other hand, has remained relatively stable since July 2002.

Diagram 5 shows that unaffiliated RES have been increasing their share relative to all affiliated sources available to these customers. The overall market picture for this group looks positive at this time.

Diagram 4: Basic 6L Service Customers by Retail Supply Type

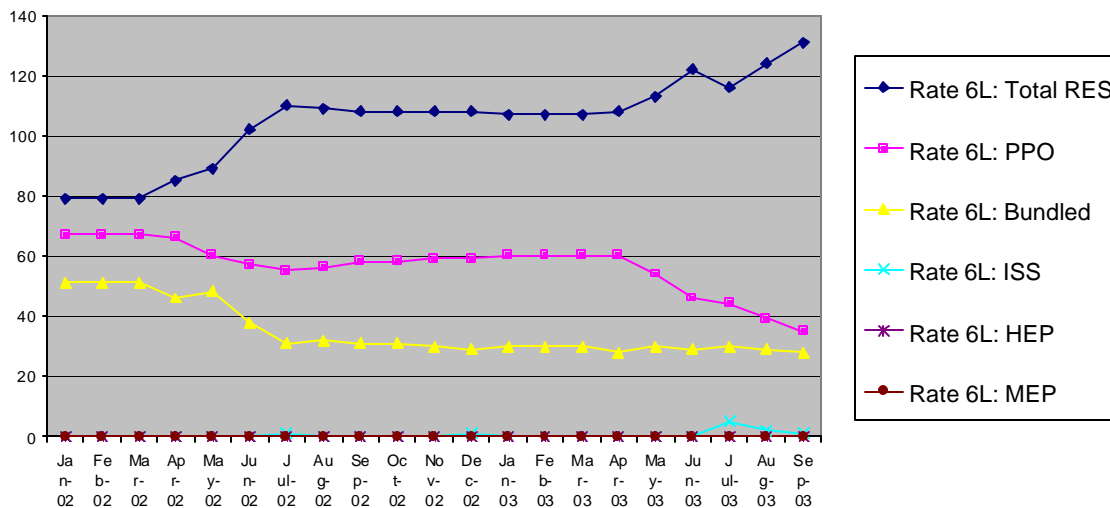
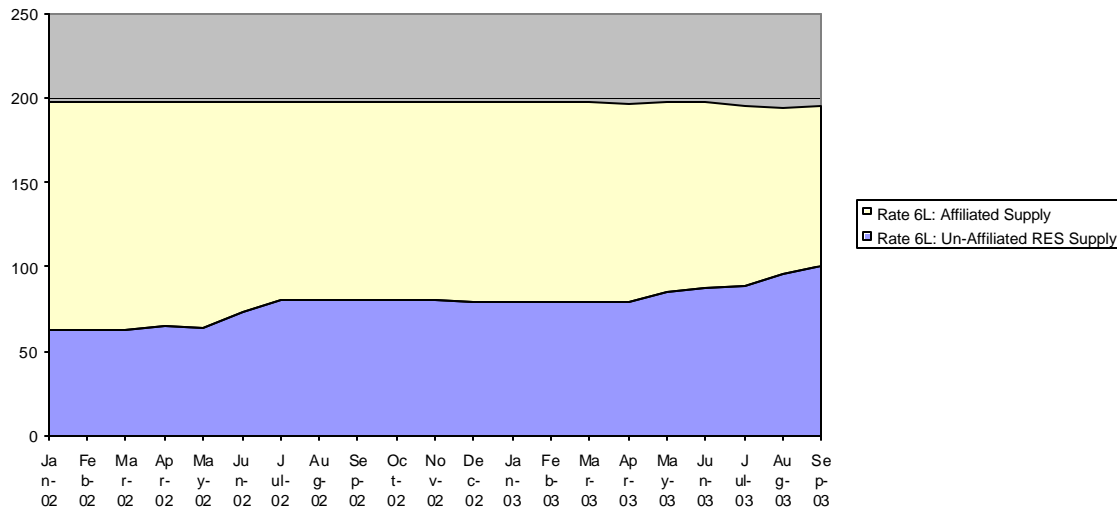


Diagram 5: Basic 6L Service: Unaffiliated Supply relative to Affiliated Supply



2.) Rate 6L, Rider 25

Customers on Rider 25 have fared as well as customers on Basic 6L service. Diagram 6 shows the total number of Rider 25 customers on RES service increased during the observation period, with the increase in the number of customers on RES service being closely matched by the decrease in the number of customers taking PPO service in the same time period. There was a large spike in switching activity from PPO to RES service during the most recent Nomination Period. However, as in the Basic 6L case, the net number of customers on bundled service has remained relatively stable since July 2002. This is not necessarily a negative development since the RCDS choice became irreversible at the end of the 2003 Notification Period.

Diagram 7 shows that unaffiliated RES have been increasing their share relative to all affiliated sources available to these customers. As in the case of the Basic 6L customers, other than a relative stagnation in the movement of customers from bundled service to RCDS among Rider 25 customers, the overall market picture shows signs of improvement. Staff will be watching for evidence of continuing stagnation through the next Notification Period.

Diagram 6: 3 MW and Larger Rider 25 Customers by Basic Retail Supply Type

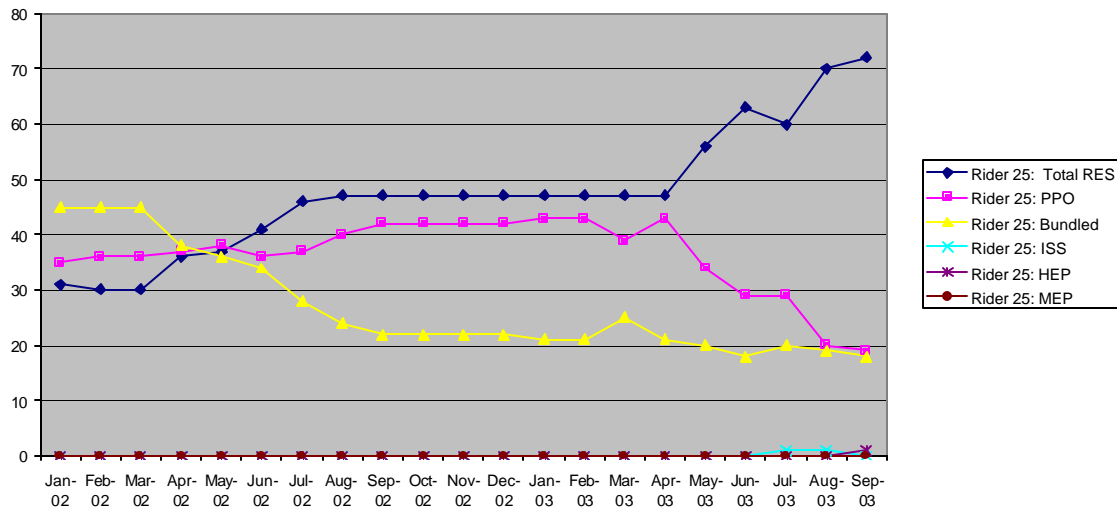
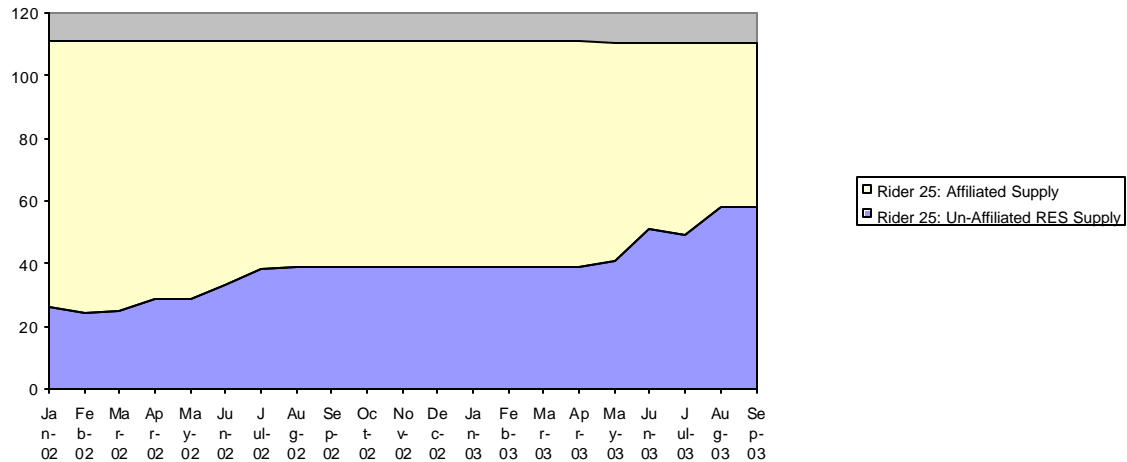


Diagram 7: 3MW and Larger Rider 25 Customers by Supply Affiliation



3.) Rate 6L, Rider 26

The penetration rate of delivery service for customers on Rider 26 has been low. Diagram 8 shows that, among Rider 26 customers, net bundled rate desertions completely ceased prior to 2002. By the beginning of 2002, two customers out of nine were on RCDS. One customer was on PPO and the other

was taking RES service. Since the end of the 2002 Nomination Period, both RCDS customers have been on RES service.

Diagram 9 shows that the two customers that have switched are taking service from unaffiliated RES. Overall, however, ComEd bundled service is the dominant form of supply among historic Rider 26 customers. While Rider 26 customers make up a small percentage of those 3 MW and larger, there is apparently some characteristic that is making RCDS options, affiliated or not, uneconomic relative to bundled service for the majority of Rider 26 customers. Further analysis is warranted to insure that the tariff structure, long-term constraints, or the specific characteristics of the remaining bundled Rider 26 customers are not limiting the availability of economic, unaffiliated alternatives to ComEd's bundled service for this sub-group.

Diagram 8: 3 MW and Larger Rider 26 Customers by Basic Retail Supply Type

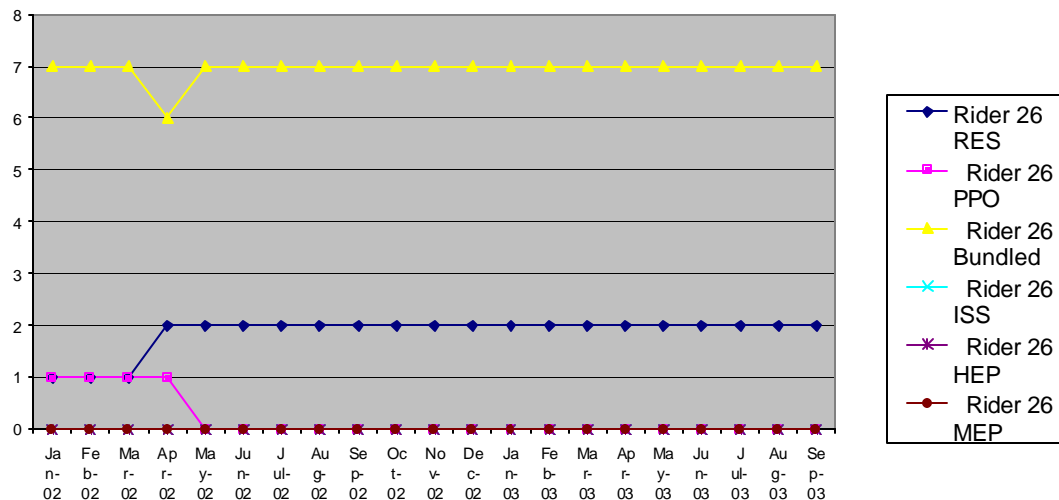
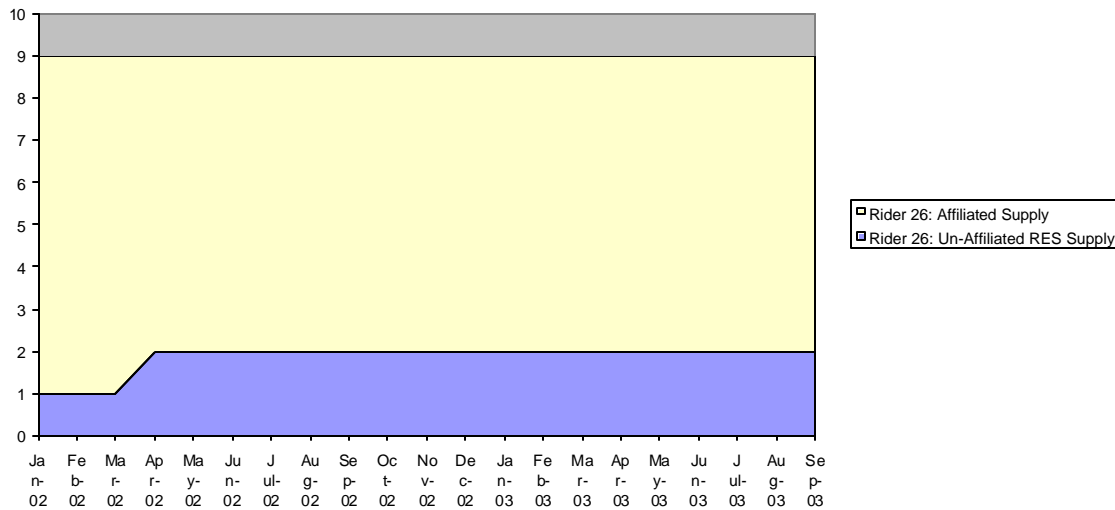


Diagram 9: 3 MW and Larger Rider 26 Customers by Supplier Affiliation



4.) Rate 6L, Rider 27

In general, the 19 customers on Rider 27 have not found RCDS options to be viable relative to continued service on the bundled rate. The introduction of the multi-year CTC in 2003 appears to have little impact on Rider 27 customer decisions to take RCDS over bundled service. Diagram 10 shows that, among Rider 27 customers, bundled rate desertions have, for the most part, ceased. Prior to the beginning of 2002, and continuing through the Nomination Period in 2003, only 4 customers (21%) in this group were on RCDS. From the beginning of 2002 through the 2003 nomination period, 3 of the 4 customers on RCDS were taking service with RES, with the fourth taking PPO service. By the end of the 2003 Nomination Period, the numbers of customers on RCDS increased by one and all RCDS customers were taking service from RES (both affiliated and unaffiliated) service.

Diagram 11 shows that the proportion of Rider 27 customers taking service from unaffiliated RES has increased slightly, but the vast majority of Rider 27 customers continue to take service from retail sources directly or indirectly associated with ComEd.

While Rider 27 customers make up a small percentage of those 3 MW and larger, there is apparently some characteristic that is making Delivery service options, affiliated or not, uneconomic relative to bundled service for the majority of Rider 27 customers. Further analysis is warranted to insure that the tariff structure, long-term constraints, or the specific characteristics of the remaining bundled Rider 27 customers are not limiting the availability of economic, unaffiliated alternatives to ComEd's bundled service for this sub-group.

Diagram 10: 3 MW and Larger Rider 27 Customers by Basic Supply Type

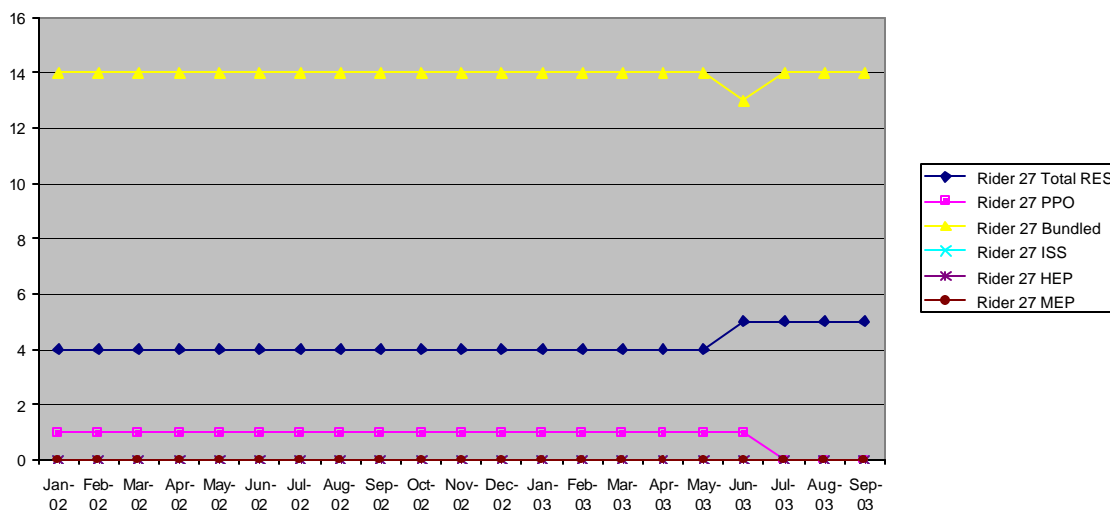
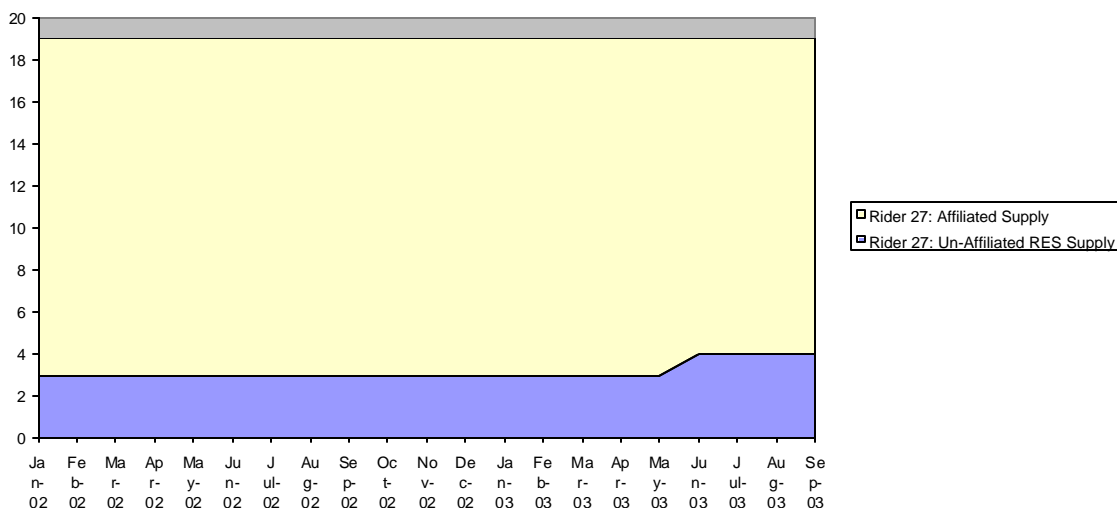


Diagram 11: 3 MW and Larger Rider 27 Customers by Supplier Affiliation



5.) Special Contracts

For all intents and purposes, based on their supply relationship with ComEd, customers with Special Contracts are bundled customers. Special Contract customers provide an unusual set of customers in that, until their contract with ComEd runs out, they have no incentive to seek alternatives to the Special Contract (bundled service). The prices in these contracts are, without exception, better than what the customers would have received on 6L service, and likely better than any deal they can receive via PPO, MEP, HEP, ISS, or

RES service. RCDS-based options, are therefore, not considered until the Special Contract runs out.

At the same time, as of end of the 2003 Nomination period, Special Contract customers do not have the option to return to bundled service upon their Contract's expiring. Therefore, as of the end of the 2003 notification period, the movement of Special Contract customers to RCDS service cannot necessarily be taken as an indication that the market is providing a more attractive alternative to bundled service to these customers. For example, though from January 2003 to September 2003, net bundled customers dropped from 89 to 81 customers, the number of Special Contract customers, as shown in Diagram 12, dropped from 18 to 14.⁴ Of the 4 former Special Contract customers now on RCDS service, 2 of those had contracts that ended after June 2003, when a return to bundled service was no longer an option. Those two customer's move from bundled to RCDS has less importance than a similar number moving from Basic 6L to RCDS service. The reason being that any customers leaving Basic 6L at this point has a choice, whereas customers leaving Special Contracts do not.

For purposes of measuring the current number of bundled customer who are in a position to make an informed choice about whether or not to make the transition to RCDS service, 16 of the Special Contract customers will not be in a position to choose to stay with bundled service upon the expiration of their Special Contract (including the 2 which switched to RCDS after June 2003). Only 2 of the former Special Contract customers have clearly been in a position to make that choice.

While the future movement of Special Contract customers from bundled to RCDS service is little importance to judging the retail market's ability to provide economic alternatives to ComEd's 6L service for customer 3 MW and larger, the type of service used by these customers will be of interest going forward. As of September 2003, RES are serving all 4 of the former Special Contract customers in the ComEd service territory, and half of those are receiving service from unaffiliated RES.

⁴ While the total number of Special Contract class of customers remained the same in this period (18), the total number of customers 3 MW and larger fell from 354 to 351.

Diagram 12: 3 MW and Larger Special Contract Customers by Basic Supply Type

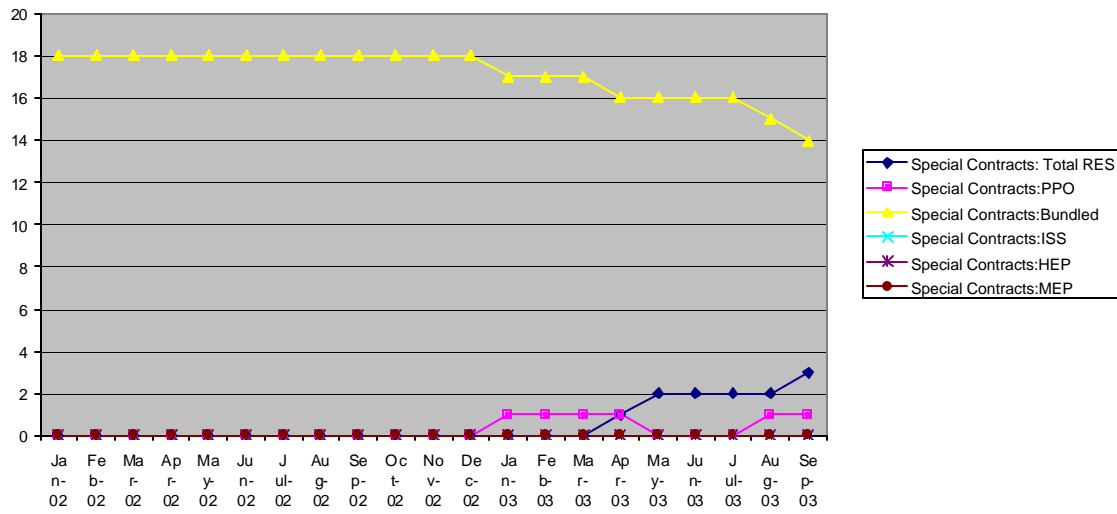
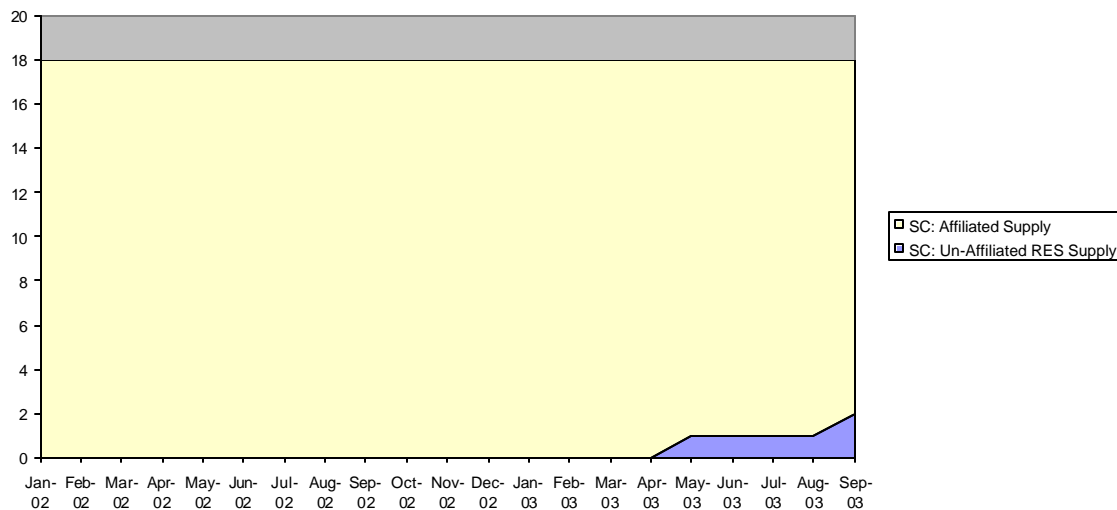


Diagram 13: 3 MW and Larger Special Contract Customers by Supply Affiliation



III. Conclusion

Between January 2002 and September 2003 the number of customers taking service from RES increased while the number of customers on the PPO fell. While RES managed to draw customers from both PPO and bundled service in 2002, most of the 2003 increase in RES numbers comes from customers switching from PPO service in 2003, not from additional customers leaving bundled service. A positive development over this period was the increase in the market share of unaffiliated retail suppliers among customers (3 MW and larger).

At the same time, there is evidence that the growth in unaffiliated supply among certain subclasses of customers is uneven and there is continuing evidence that there remain, despite changes to make RCDS service more attractive, a significant number of customers for whom RCDS options are still not a viable economic alternative to continued bundled service. Net bundled service numbers were relatively stable in 2003, relative to those in 2002, despite the introduction of the multi-year CTC and the removal of the ability of RCDS customers to return to bundled service at the end of the 2003 Notification Period. As of September 2003, 23% of all customers 3 MW and larger were still on bundled service, compared to 26% in September of 2002. Examined on the basis of specific rider, customers on Rider 26 (Interruptible) and Rider 27 (Self-Generation) have seen little in the way of viable alternatives from sources unaffiliated with ComEd. A majority of Rider 26 and Rider 27 customers are, in fact, still on bundled service.

Further analysis is warranted to insure that the tariff structure, long-term constraints, or the specific characteristics of the remaining bundled customers, particularly those on Rider 26 and Rider 27, are not limiting the availability of economic, unaffiliated alternatives to ComEd's bundled service.

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